

BANADER HOTELS COMPANY BSC

FINANCIAL STATEMENTS

31 DECEMBER 2006

FINANCIAL STATEMENTS
for the period from 20 December 2005 to 31 December 2006

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GENERAL INFORMATION

COMMERCIAL REGISTRATION	59045
HEAD OFFICE	No. 13, 1st Floor, Entrance 4 Manama Centre, Government Avenue, Manama, Kingdom of Bahrain Telephone: 17 200064 Fax: 17 200065
AUTHORISED SHARE CAPITAL	300,000,000 shares of BD 0.100 each: BD 30,000,000
ISSUED SHARE CAPITAL	150,000,000 shares of BD 0.100 each: BD 15,000,000
CALLED AND PAID UP SHARECAPITAL	150,000,000 shares of BD 0.050 each: BD 7,500,000
DIRECTORS	Mr Abdulla Hassan Buhindi - Chairman Mr Murad Ali Murad - Vice Chairman Mr Nasser Al Nuwais Mr Yasin Al Onaizy Mr Sami Jalal Mr Mohammed Al Moayyed Mr Jaffer Al Mansoor Mr Jihad Amin
BANKERS	Bank of Bahrain and Kuwait BSC
AUDITORS	KPMG
COMPANY SECRETARY	Mr. Abdullah Ahmed Abdulrahim

CHAIRMAN'S REPORT
for the period from 20 December 2005 to 31 December 2006

On behalf of the Board of Directors, I have the privilege to present the first annual report of the Company which includes the audited financial statements for the period from 20 December 2005 to 31 December 2006.

As you are aware, since its incorporation during the last quarter of 2005 the Company has taken a number of steps in order to establish the hotel project which is intended to be built in the commercial area in midtown Manama. The initial approval from the ministry of Information has been obtained and the procedures of merging the two title deeds and transferring them to the company. The objective of all these procedures is to effectively start the execution of the project.

It is worth noting that during the last period, the company received bids from a number of specialised companies in the management of the project which has been reviewed by the board projects committee formed by the board of directors. Accordingly, "Nassar Engineering Services – Lebanon" has been appointed as the project manager to carry out all activities related to the project, including proposing the designers, internal designers and supervising the construction and execution.

The company also signed a management contract with Rotana Hotels Company, UAE in order to manage the hotel once it is completed. It is worth mentioning that Rotana Hotels Company is considered one of the well known companies in hotels management and it currently owns and runs a number of hotels in the Gulf, and it is also a major shareholder in Banader Hotels Company.

Further, the company – through the project manager – received a number of bids from a number of local and foreign designing companies to prepare the hotel design, and after studying those bids, "Mohammed Salahuddein Engineering Consultants" - a Bahraini company was chosen to undertake the design and to prepare the necessary engineering drawings and provide the total cost of the hotel. In addition "Jalal Mahmood Establishment" has been contracted to interior work.

It is worth noting that these bids were reviewed in details by the Board projects committee and the appropriate parties were selected, taking into account several factors, including the experience, reputation, cost and the time required to complete the work.

The consultant is currently preparing the project engineering designs, and we have come along good at this stage, and as you know a project design of this size requires the involvement of several relevant parties and discussion of all related matters in details, which resulted in changes and redrawing which took more time than was expected.

In this occasion, we would like to point out that the hotel project will be built on a piece of land of area 4,302 square meters owned by the company located in the eastern side of Batelco Commercial Centre near Bab Al-Bahrain in Manama, and it will consist of a hotel and hotel apartments. The total cost of the project has not been determined yet, since that depends on the final building design, and we hope to start the execution of the project during the second half of 2007.

In conclusion, we would like to confirm to our shareholders that the company, represented by the board of directors, is keen to complete the hotel project as soon as possible and to achieve a return on their investments in the company.

CHAIRMAN'S REPORT
for the period from 20 December 2005 to 31 December 2006

Also, we would like to give our sincere thanks to the Government, Ministries and Entities, especially Central Bank of Bahrain, the Ministry of Commerce and Industry, Bahrain Stock Exchange and the Ministry of Information for their support and help to the company to enable us to complete this project that, as we hope, will be a landmark in the commercial area in the centre of the capital. We also would like to thank all the company shareholders for their support, and hope that we live up to your expectations in the coming periods.

Abdulla Buhindi
Chairman



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REPORT OF THE AUDITORS TO SHAREHOLDERS

Banader Hotels Company BSC

Manama, Kingdom of Bahrain

27 February 2007

Report on the financial statements

We have audited the accompanying financial statements of Banader Hotels Company BSC ("the Company"), which comprise the balance sheet as at 31 December 2006, the income statement, statement of changes in equity and statement of cash flows for the period then ended, and a summary of significant accounting policies and other explanatory notes.

Responsibility of the directors for the financial statements

The directors of the Company are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2006, and of its financial performance and its cash flows for the period then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

In addition, in our opinion, the Company has maintained proper accounting records and the financial statements are in agreement therewith. We have reviewed the accompanying report of the chairman and confirm that the information contained therein is consistent with the financial statements. We are not aware of any violations of the Bahrain Commercial Companies Law 2001 or the terms of the Company's memorandum and articles of association having occurred during the period that might have had a material effect on the business of the Company or on its financial position. Satisfactory explanations and information have been provided to us by the management in response to all our requests.

VIPMS

BALANCE SHEET
as at 31 December 2006

Bahraini dinars

	Notes	2006
Assets		
Property, plant and equipment	3	3,256,738
Total non-current assets		3,256,738
Cash and cash equivalents		5,995,530
Prepaid expenses and other receivables	4	41,237
Total current assets		6,036,767
Total assets		9,293,505
Equity and liabilities		
Share capital	5	7,500,000
Share capital received in advance	5	1,500,000
Statutory reserve		18,840
Retained earnings		169,558
Total equity		9,188,398
Accrued expenses and other payables	6	105,107
Total current liabilities		105,107
Total equity and liabilities		9,293,505



Abdulla Hassan Buhindi
Chairman



Murad Ali Murad
Vice- Chairman

The Board approved the financial statements consisting of pages 4 to 14 on 27 February 2007.


INCOME STATEMENT
for the period from 20 December 2005 to 31 December 2006

Bahraini dinars

	Notes	2006
Revenue	7	315,904
Share issue and setup costs	8	(85,907)
General and administrative expenses	9	(39,137)
Depreciation	3	(2,397)
Financing costs		(65)
		(127,506)
Net profit for the period		188,398
Basic earnings per share (Fils)	10	2.09



Abdulla Hassan Buhindi
Chairman

Murad Ali Murad
Vice-Chairman

STATEMENT OF CHANGES IN EQUITY

for the period from 20 December 2005 to 31 December 2006

Bahraini dinars

	Notes	Share capital	Share capital received in advance	Statutory reserve	Retained earnings	Total
Issue of share capital	4	7,500,000	-	-	-	7,500,000
Share application money received in advance	4	-	1,500,000	-	-	1,500,000
Profit for the period		-	-	-	188,398	188,398
Total recognised income and expense for the period		-	-	-	188,398	188,398
Transfer to statutory reserve		-	-	18,840	(18,840)	-
At 31 December		7,500,000	1,500,000	18,840	169,558	9,188,398

STATEMENT OF CASH FLOWS
for the period from 20 December 2005 to 31 December 2006

Bahraini dinars

	2006
Operating activities	
Payments for overheads	(33,461)
Other receipts	15,510
Cash flows from operating activities	(17,951)
Investing activities	
Purchase of property, plant and equipment	(17,679)
Payments for capital work-in-progress	(173,519)
Interest on short-term deposits	259,923
Cash flows from investing activities	68,725
Financing activities	
Proceeds from issue of shares	6,000,000
Proceeds from share subscription due for refund	30,663
Payments for share issue and setup costs	(85,907)
Cash flows from financing activities	5,944,756
Net increase in cash and cash equivalents	5,995,530
Cash and cash equivalents at 31 December 2006	5,995,530
Current accounts	138,159
Deposit accounts	5,857,371
	5,995,530

NOTES**to the 2006 financial statements**

Bahraini dinars

1. STATUS AND OPERATIONS

Banader Hotels Company BSC ("the Company") is a Bahraini Shareholding Company registered in Bahrain in accordance with the provisions of the Bahrain Commercial Companies Law 2001 and operates under the commercial registration number 59045 obtained on 20 December 2005.

The principal activity of the Company is building and investing in hotels. These are the first financial statements of the Company covering the period from 20 December 2005 to 31 December 2006.

The Company issued an Initial Public Offering ("IPO") of 60 million shares valued at 100 fils each for public subscription starting from 2 October 2005 till 17 October 2005.

2. SIGNIFICANT ACCOUNTING POLICIES**a) Statement of compliance**

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) and the requirements of the Bahrain Commercial Company Law 2001.

b) Basis of preparation

The financial statements have been drawn up from the accounting records of the Company under the historical cost convention.

c) Receivables

Receivables are recognised initially at cost, being their fair value and subsequently measured at amortised cost, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. A provision is made when the carrying amount of the asset exceeds the present value of the estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

d) Interest income

Interest income includes interest on short-term deposits with banks.

e) Foreign currency*(i) Functional and presentation currency*

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates ("the functional currency"). The financial statements are presented in Bahraini Dinars, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Monetary assets and liabilities are translated into Bahraini Dinars at exchange rates ruling at the balance sheet date. Transactions in foreign currencies during the period are converted at the rate ruling at that time. Foreign exchange gains and losses are recognized in the income statement.

NOTES**to the 2006 financial statements**

Bahraini dinars

2. *Significant accounting policies (continued)***f) Property, plant and equipment**

Items of property, plant and equipment are carried at cost less accumulated depreciation and any impairment losses. The cost of the properties and equipments includes the cost of bringing them to their present location and condition. Capital work-in-progress comprises the cost of properties and equipments that are not yet ready for their intended use before the balance sheet date. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount.

(i) Subsequent cost

The Company recognises the carrying amount of an item of property, plant and equipment, and the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Company and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

(ii) Depreciation

Land is not depreciated. Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment as follows:

Plant and equipment	5 years
Motor vehicles	5 years

g) Impairment

The carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its estimated recoverable amount. All impairment losses are recognized in the income statement. Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

h) Employee benefits

Bahraini employees are covered by the General Organization for Social Insurance pension scheme to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. The Company's share of contributions to this funded scheme, which is a defined contribution scheme under IAS 19, is recognised as an expense in the income statement.

There were no expatriate employees during the period and as at 31 December 2006.

i) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, bank balances, and short term deposits with banks.

j) Trade payables

Trade payables are stated at their amortised cost.

NOTES
to the 2006 financial statements

Bahraini dinars

2. *Significant accounting policies (continued)*

k) Provisions

A provision is recognised in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

l) Critical accounting estimates and judgments in applying accounting policies

The Company makes estimates and assumptions that affect the reported amount of assets and liabilities. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

m) Statutory reserve

In accordance with the Company's Articles of Association and the Bahrain Commercial Companies Law 2001, 10 percent of the net profit is appropriated to a statutory reserve, until such reserve reaches 50 percent of the paid-up share capital. This reserve is not normally distributable, except in the circumstances stipulated in the Bahrain Commercial Companies Law 2001.

3. PROPERTY, PLANT AND EQUIPMENT

	Land	Capital work in progress	Plant and equipment	Motor vehicles	Total
Cost	3,057,886	183,570	12,904	4,775	3,259,135
At 31 December 2006	3,057,886	183,570	12,904	4,775	3,259,135
Depreciation					
Charge for the period	-	-	1,688	709	2,397
At 31 December 2006	-	-	1,688	709	2,397
Net book value					
At 31 December 2006	3,057,886	183,570	11,216	4,066	3,256,738

The Company has obtained professional valuations of the land at BD 5,788,610.

The Company currently has one project in hand for the construction of a hotel and residential complex at Bab-Al-Bahrain, Manama. Capital Work in progress represents cost incurred till date on the construction of this hotel, which includes consultancy fees to the project and hotel manager and architect's fees.

4. PREPAID AND OTHER RECEIVABLES

Prepayments
Interest receivable on fixed deposits
Parking fees

2006
766
22,543
17,928
41,237

NOTES

to the 2006 financial statements

Bahraini dinars

5. SHARE CAPITAL

Authorised share capital
300,000,000 shares of 100 fils each

2006

30,000,000

Issued share capital
150,000,000 shares of 100 fils each

15,000,000

Called and paid up share capital
150,000,000 shares of 50 fils each

7,500,000

Share capital received in advance
30,000,000 shares of 50 fils each

1,500,000

The Company issued 150 million shares, out of which 90 million shares were subscribed by the founder members. The remaining 60 million shares were offered to the public through an IPO. The Company has called up 50% of the par value of 100 fils per share as of 31 December 2006.

Out of the total 90 million shares issued to founders, 30 million shares (par value BD 3 million) were issued to Bahrain Maritime & Mercantile International BSC (BMMI). BMMI has entered into a sale agreement with the Company to transfer land valued at BD 3 million in exchange of these shares. The called up value of BD 1.5 million has been considered as share capital and the remaining amount of BD 1.5 million as 'Share capital received in advance'.

The largest shareholder is Bahrain Maritime & Mercantile International BSC (BMMI) with 30 million shares representing 20% of the issued share capital. The distribution of shareholdings is as follows:

Categories	2006		% of total outstanding share capital
	No. of Shares	No. of share holders	
Less than 1%	73,679,907	4,139	49.12
1% up to less than 5%	35,070,093	14	23.38
5% up to less than 10%	11,250,000	1	7.50
10% up to less than 20%	30,000,000	1	20.00
	150,000,000	4,155	100

6. ACCRUED EXPENSES AND OTHER PAYABLES

Share application money (refundable)
Sundry creditors
Employee payables
Consultancy charges payable
Land registration fees

2006

30,663

5,273

1,234

10,051

57,886

105,107

NOTES
to the 2006 financial statements

Bahraini dinars

7. REVENUE

Interest on fixed deposits	282,466
Parking fees	33,438
	315,904

8. SHARE ISSUE AND SET UP COSTS

Issue manager fees	35,000
Issue bank fees	5,000
Listing fees	11,531
Advertisement expenses	31,072
Other clearance expenses	3,304
	85,907

9. GENERAL AND ADMINISTRATIVE EXPENSES

Employee costs	12,853
Office rent	6,632
Subscription fees – stock exchange	10,125
Others	9,527
	39,137

10. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares outstanding during the period, excluding the average number of ordinary shares purchased by the Company and held as treasury shares, as follows:

	2006
Net profit attributable to shareholders	188,398
Qualifying ordinary shares in issue attributable to ordinary shareholders	90,000,000
Basic earnings per share (fils)	2.09

NOTES

to the 2006 financial statements

Bahraini dinars

11. COMMITMENTS

Project management and consultancy fees
Architect fees

2006
178,506
434,560
613,066

The Company has entered into contractual arrangements related to provision of consultancy services, project management services and architect services. Amounts due till 31 December 2006 have been accrued in the financial statements. The above represent amounts committed to be paid upon services being provided which will form part of the total cost of the hotel project and will be recognised as 'Capital work in progress'.

12. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Transactions with related parties are conducted in the normal course of business, at rates agreed on an arms' length basis.

Transactions with key management personnel

Key management personnel of the Company comprises of the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Company. There was no remuneration paid to, and no significant expenses paid on behalf of Directors during the period.

Directors' interest in the shares of the Company as at the period end was as follows:

Total number of shares held by Directors
As a percentage of the total number of shares outstanding

2006
1,529,466
1.02

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments consist of financial assets and financial liabilities.

Financial assets of the Company include cash, short term deposits, bank balances and prepayments.

Financial liabilities of the Company include payables and accrued expenses.

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Company seeks to limit its credit risk with respect to customers by means of the following policies:

- Credit risk is actively managed and rigorously monitored in accordance with well-defined credit policies and procedures laid down by the Company.
- Credit review procedures are designed to identify at an early stage exposure, which require more detailed monitoring and review.
- Cash is placed with banks with good credit ratings.

NOTES**to the 2006 financial statements**

Bahraini dinars

13. Financial instruments and risk management (continued)

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Company is exposed to interest rate risks on its short-term deposits.

The Company's short-term deposits are at floating interest rates and mature within three months. The interest rate on short-term deposits ranges from 4.90 to 5.07%.

Liquidity risk, also referred to as funding risk, is the risk the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

Liquidity requirements are monitored on a daily basis and the management ensures that sufficient funds are available to meet any future commitments. In the normal course of business, the Company does not resort to borrowings but has the ability to raise funds from banks at short notice.

Exchange rate risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Company has short term deposits in Bahrain dinars. The Bahraini dinar is effectively pegged to the dollar and hence the Company does not face significant exchange risks.

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all investments traded in the market.

The fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The estimated fair values of the Company's financial assets and liabilities are not significantly different from their carrying value.

14. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

During the period the following relevant new / amended IFRS standards and interpretations have been issued, which are not yet mandatory for adoption by the Company:

- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Presentation of Financial Statements (amended)
- IFRIC 10 Interim Financial Reporting and Impairment

The adoption of these standards and interpretations are not expected to have material impact on the financial statements.